



economics

BERL BUDGET COMMENTARY

MAY 2011

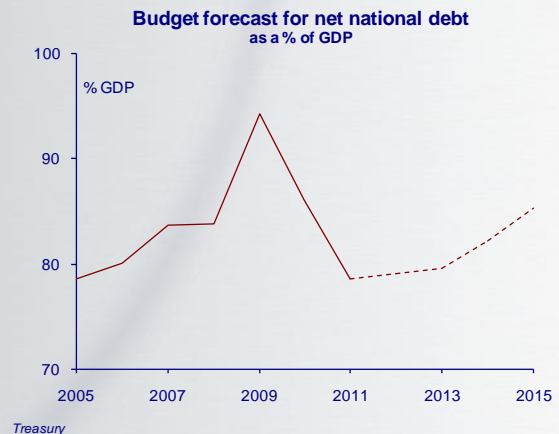
Yay!!! The Govt's 'books' are better ... BUT, hey, who is looking after NZ's 'books'?

At a time when this country is in need of strong leadership from the political and business communities, we are (once again) presented with rhetoric and actions focussed on overcoming a narrow economic goal for some short-term wins. Yes, the Budget sees the Government's books 'back in the black' sooner rather than later after cuts to the KiwiSaver and Working for Families programmes, as well as no new spending for the public sector. This improvement in the Government accounts will, no doubt, leave the credit ratings agencies happier.

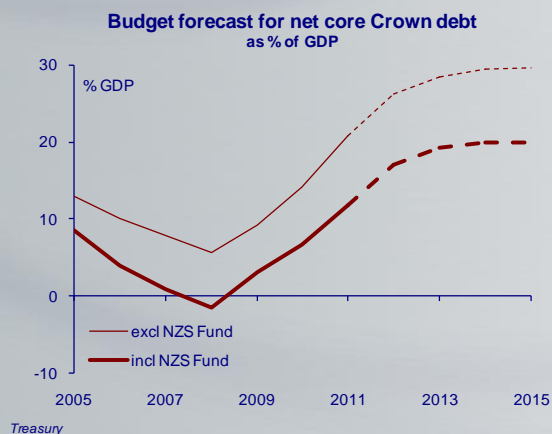
So, the Government is successfully looking after its 'books'. But, who is looking after the nation's 'books'? The answer appears to be no one.

Indeed, the Budget forecasts the nation's books (in terms of national debt) are going to get worse from here on in. I heard an observer applaud this Budget on the grounds that we are now 'controlling our debt'. This is just plain wrong. Yes, the

Government is controlling its debt, but the nation's debt continues to increase – as illustrated from 78.6% of annual GDP now, to a forecast 85% of GDP in 2015.



As announced, the Government appears to have succeeded in its headlong pursuit to rein in the



Governments situation, with the Government's operating balance turned from a \$16.7bn deficit in the current year into a surplus of \$1.3bn in the year to June 2015.

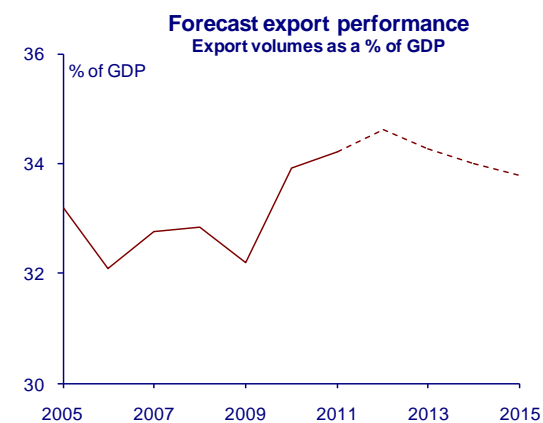
Even more promising is the forecast picture for overall net Crown debt, which is set to peak at below 30% of GDP. The picture is even better if you include the NZ Super Fund as part of the Crown's assets.

Oh, when will we ever learn?

A frustration is that we've been here before. The previous Government spent most of its nine-year tenure restoring the Government's books to better health. For the most part of the decade from 2000, the accumulation of surpluses and consequent reductions in Government debt was forwarded as evidence of 'prudent fiscal management'.

But, during this time of 'prudent fiscal management' there was a stark deterioration in our national debt position as the tradable production and export sectors of the NZ economy made little headway.

Also similar to our earlier experiences, this year's Budget signals a profound turnaround in our growth prospects with expansion reaching an annual 4% in the year to March 2013, and 170,000 new jobs to be created over the coming 4 years.



Treasury and BERL calculations

However, growth only reaches 4% for one of the 4 forecast years. In each of the other 3 years growth is an annual 3% or less. Thus, the average annual growth over the four year forecast horizon is just under 2.9%.

Further, the growth picture is not underpinned by a sustained expansion of competitive businesses selling quality products and services to export markets. Indeed, as illustrated, the exports sector barely keeps pace with wider economic growth.

Without doubt, the forecast growth picture is heavily dependent on the re-building of Christchurch. Preliminary calculations suggest that without this programme, the Budget forecasts for GDP growth would average an annual 1.6% over the coming four years.

And then there are the 170,000 jobs, or an average 42,500 net new jobs per annum, over the next four years. This would indeed be an impressive performance, comparing equally with the average 46,000 net new jobs per annum added over the eight years from 2000.

But, again, the parallels with that period are eerie. A period with significant job growth, in conjunction with convincing GDP growth statistics, but lagging export and tradable sector growth putting further pressure on the external deficit and, so, our national debt. But, hey, at least the Government's debt is under control. Sound familiar?

Until the rhetoric is changed from 'the Government' to 'the Nation' – and from saving more/spending less, to one of earning (i.e. exporting) more – it appears we seem destined to repeat, again, our past experiences. Nevertheless, there really are no surprises here in a Budget speech where the word 'debt' got 19 mentions, 'savings' got even more at 21 mentions; leaving 'exports' to get but a mere two mentions.